



**Mutale Municipality
Annual Financial Statements
for the year ended 30 June 2012**

Mutale Municipality

Annual Financial Statements for the year ended 2012/06/12

General Information

Legal Form of Entity	Municipality
EXECUTIVE COMMITTEE	Councillor N.J Mukwevho (Mayor) Councillor L.H Netshipise (Speaker) Councillor A. E Nekhunguni (Chief Whip) Councillor N.A Leiba (Member) Councillor A.S Rambuda (Member) Councillor A.G Netshisaulu (Member)
Councillors	Councillor T.S Madube Councillor L.D Mpondo Councillor A.B Matshusa Councillor K.P Tshivhenga Councillor A.R Mavhungu Councillor N.G Mawela Councillor N.P Munzhelele Councillor M.J Mariba Councillor K.A Lukhalimana Councillor H.N Nephali Councillor N.E Mudzielwana Councillor P.D Nekhunguni Councillor V.R Maisha Councillor T.J Raluswinga Councillor A.S Thabatshira Councillor J.K Khunwana Councillor R.L Gababeni Councillor L.M Netshisauli Councillor M.P Mbedzi Councillor G.G Nekhubvi
Grading of Local Authority	Grade 2
Acting Chief Finance Officer (CFO)	Mr T.A Tshinavhe
Accounting Officer	Mr T.G Netshanzhe
Registered office	Old Manenu Building Battalion Building Mutale Town
Business address	Old Manenu Building Battalion Building Mutale Town 0956
Postal address	Private Bag X1254 Mutale 0956
Bankers	FNB
Auditors	Auditor General (South Africa)

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Abbreviations

OID	Occupational Injuries and Diseases
LGSETA	Local Government Sector Educational Training Authority
EPWP	Extended Public Works Programme
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
NLG	National Lottery Grant
IAS	International Accounting Standards
INEP	Intergrated National Electrification Programme
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Financial Management Grant
MSIG	Municipal Systems Improvement Grant
LED	Local Economic Development

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the government grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that Mutale Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 34, which have been prepared on the going concern basis, were approved by the municipality on 31 August 2012 and were signed on its behalf by:

Mr T.G Netshanzhe
Municipal Manager

Mutale Municipality

Annual Financial Statements for the year ended 2012/06/12

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
ASSETS			
Current Assets			
Inventories	5	107 341	346 085
Other receivables from exchange transactions	6	2 112 531	737 902
VAT receivable from exchange transactions	7	8 419 484	6 250 860
Consumer debtors	8	2 145 432	559 029
Cash and cash equivalents	9	97 192	440 688
		12 881 980	8 334 564
Non-Current Assets			
Investment property	2&3	1 896 230	-
Property, plant and equipment	3	80 426 785	62 989 643
Intangible assets	4	332 215	242 915
		82 655 230	63 232 558
Non-Current Assets		82 655 230	63 232 558
Current Assets		12 881 980	8 334 564
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		95 537 210	71 567 122
LIABILITIES			
Current Liabilities			
Finance lease obligation	10	-	253 335
Payables from exchange transactions	13	20 490 731	15 919 995
Consumer deposits	14	212 587	211 783
Unspent conditional grants and receipts	11	12 834 635	22 201 262
Provisions	12	1 588 403	1 235 201
Current portion of liability		274 015	243 030
		35 400 371	40 064 606
Non-Current Liabilities			
Finance lease obligation	10	69 354	177 455
Long term liability		1 157 712	1 431 727
		1 227 066	1 609 182
Non-Current Liabilities		1 227 066	1 609 182
Current Liabilities		35 400 371	40 064 606
Liabilities of disposal groups		-	-
Total Liabilities		36 627 437	41 673 788
Assets		95 537 210	71 567 122
LIABILITIES		(36 627 437)	(41 673 788)
Net Assets		58 909 773	29 893 334
Net Assets			
Accumulated surplus		58 909 773	29 893 334

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Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	16	3 315 697	3 110 860
Service charges	17	224 660	193 131
Rental of facilities and equipment	15	63 705	70 183
Fines	15	195 980	194 355
Licences and permits	15	2 290 354	2 225 830
Government grants & subsidies	18	60 648 102	41 125 735
Other Income	19	2 323 672	646 286
Interest received	24	385 059	350 276
Interest Received - Trade and Other Receivables	24	1 153 184	223 473
Total Revenue		70 600 413	48 140 129
Expenditure			
Employee related costs	21	(24 878 784)	(22 248 564)
Remuneration of councillors	22	(6 417 235)	(5 231 388)
Depreciation and amortisation	25	(1 371 229)	(1 648 944)
Finance costs	26	(2 117 007)	(488 249)
Debt impairment	23	(126 245)	(2 238 934)
Repairs and maintenance		(2 168 159)	(2 811 998)
General Expenses	20	(6 117 078)	(6 267 362)
Total Expenditure		(43 195 737)	(40 935 439)
Revenue		70 600 413	48 140 129
Expenditure		(43 195 737)	(40 935 439)
Other		-	-
Surplus for the year		27 404 676	7 204 690

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	22 635 617	22 635 617
Adjustments		
Fair value adjustments	53 027	53 027
Balance at 2010/07/10 as restated	22 688 644	22 688 644
Changes in net assets		
Surplus for the year	7 204 690	7 204 690
Total changes	7 204 690	7 204 690
Opening balance as previously reported	29 844 406	29 844 406
Adjustments		
Fair value adjustments	53 028	53 028
Balance at 2011/07/11 as restated	29 897 434	29 897 434
Changes in net assets		
Surplus for the year	27 404 676	27 404 676
Prior Year Adjustment	1 607 663	1 607 663
Total changes	29 012 339	29 012 339
Balance at 2012/06/12	58 909 773	58 909 773

Note(s)

Mutale Municipality

Annual Financial Statements for the year ended 2012/06/12

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Fines, rental income, licencing and permits		2 550 039	-
Grants		70 814 681	41 125 734
Interest income		385 059	573 749
Receipts from debtors		791 833	3 303 991
Other receipts		2 323 672	3 136 654
Working Capital Changes		-	9 000 481
		76 865 284	57 140 609
Payments			
Employee costs		(31 574 621)	(27 479 952)
Suppliers		(23 723 607)	(9 079 359)
Finance costs		(2 117 007)	(488 249)
Other cash item		-	(9 358 324)
		(57 415 235)	(46 405 884)
Total receipts		76 865 284	57 140 609
Total payments		(57 415 235)	(46 405 884)
Net cash flows from operating activities	28	19 450 049	10 734 725
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(641 327)	(1 126 710)
Purchase of property, plant and equipment	3	(20 066 116)	-
Purchase of other intangible assets	4	(89 299)	-
Net cash flows from investing activities		(20 796 742)	(4 207 228)
Cash flows from financing activities			
Movement in other long term liability		(243 030)	(254 590)
Finance lease payments		(361 436)	(191 842)
Prior Year Adjustment		1 607 663	-
Net cash flows from financing activities		1 003 197	(446 432)
Net increase/(decrease) in cash and cash equivalents		(343 496)	322 442
Cash and cash equivalents at the beginning of the year		440 688	118 246
Cash and cash equivalents at the end of the year	9	97 192	440 688

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Annual Financial Statements for the year ended 2012/06/12

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

The following GRAP standards have been issued but are not yet effective

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality:

GRAP 18 - Segment Reporting

GRAP 21 - Impairment of non-cash-generating Assets

GRAP 23 - Revenue from non-exchange transactions

GRAP 24 - Presentation of Budget Information in Financial Statements

GRAP 25 - Employee benefits

GRAP 26 - Impairment of Cash-generating assets

GRAP 103 - Heritage assets

GRAP 104 - Financial Instruments

GRAP 105 - Transfer of functions between entities under common control

GRAP 106 - Transfer of functions between entities not under common control

GRAP 107 - Mergers

GRAP 20 - Related party disclosures

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

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Accounting Policies

1.1 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

Items of property, plant and equipment are initially recognised as an assets on acquisition dates and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

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Accounting Policies

1.2 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Leasehold property	-
•	-
Plant and equipment	20
Furniture and fittings	17
Motor vehicles	17
Office equipment	17
Other Vehicles	17
Computer Equipment	5
Infrastructure	
• Electricity	20
• Roads and Paving	20
Community	
• Buildings	30
• Recreational Facilities	30
Other property, plant and equipment	
• Fencing	17
Emergency equipment	5
Bins and containers	8

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.3 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

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Accounting Policies

1.3 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer Software	3 - 5 years

1.4 Financial instruments

Initial recognition and measurement

Financial instruments are measured initially at fair value

Subsequent measurement

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

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Accounting Policies

1.4 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

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Accounting Policies

1.5 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Inventories

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the first-in, first-out method OR the weighted average method.

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Annual Financial Statements for the year ended 2012/06/12

Accounting Policies

1.7 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.8 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.9 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Mutale Municipality

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Accounting Policies

1.9 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest revenue

Revenue arising from the use by others of entity assets yielding interest, is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.10 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Mutale Municipality

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Accounting Policies

1.10 Revenue from non-exchange transactions (continued)

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.11 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Mutale Municipality

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Accounting Policies

1.12 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.13 Comparative figures

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.14 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.15 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.16 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.17 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Additional text

1.18 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Mutale Municipality

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Accounting Policies

1.19 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.20 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Mutale Municipality

Annual Financial Statements for the year ended 2012/06/12

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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2. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1 896 230	-	1 896 230	-	-	-

Reconciliation of investment property - 2012

	Opening balance	Reclassified	Total
Investment property	-	1 896 230	1 896 230

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

When the municipality's policy is to subsequently measure investment property on the cost model, when the municipality cannot determine the fair value of the investment property reliably, the municipality must disclose:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and

Mutale Municipality

Annual Financial Statements for the year ended 2012/06/12

Notes to the Annual Financial Statements

Figures in Rand	2012			2011		
3. Property, plant and equipment						
	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	8 902 197	(2 028 759)	6 873 438	10 798 427	(1 817 699)	8 980 728
Plant and machinery	1 614 044	(435 478)	1 178 566	1 089 044	(358 594)	730 450
Furniture and fixtures	955 114	(495 158)	459 956	911 864	(440 002)	471 862
Motor vehicles	4 408 413	(2 030 359)	2 378 054	4 408 413	(1 873 723)	2 534 690
Office equipment	2 687 920	(782 811)	1 905 109	2 687 920	(685 168)	2 002 752
IT equipment	1 213 093	(1 196 801)	16 292	1 279 928	(1 193 370)	86 558
Infrastructure	66 302 127	(874 128)	65 427 999	46 236 011	(424 139)	45 811 872
Bins and containers	29 562	(22 172)	7 390	29 562	(18 476)	11 086
Park facilities	1 769 540	(341 097)	1 428 443	1 769 540	(341 097)	1 428 443
Other property, plant and equipment	1 804 196	(1 052 658)	751 538	1 804 196	(872 994)	931 202
Total	89 686 206	(9 259 421)	80 426 785	71 014 905	(8 025 262)	62 989 643

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Under Construction	Reclassified	Depreciation	Total
Buildings	8 980 728	-	-	(1 896 230)	(211 060)	6 873 438
Plant and machinery	730 450	524 999	-	-	(76 883)	1 178 566
Furniture and fixtures	471 862	43 249	-	-	(55 155)	459 956
Motor vehicles	2 534 690	-	-	-	(156 636)	2 378 054
Office equipment	2 002 752	-	-	-	(97 643)	1 905 109
IT equipment	86 558	73 079	-	-	(143 345)	16 292
Infrastructure	45 811 872	-	20 066 116	-	(449 989)	65 427 999
Bins and containers	11 086	-	-	-	(3 696)	7 390
Park facilities	1 428 443	-	-	-	-	1 428 443
Other property, plant and equipment	931 202	-	-	-	(179 664)	751 538
	62 989 643	641 327	20 066 116	(1 896 230)	(1 374 071)	80 426 785

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Under Construction	Opening Balance, Accumulated Depreciation	Depreciation	Total
Buildings	10 776 236	429 398	-	(1 471 857)	(345 842)	9 387 934
Plant and machinery	1 027 157	61 497	-	(304 533)	(53 919)	730 201
Furniture and fixtures	911 863	5 059	-	(386 437)	(53 882)	476 604
Motor vehicles	4 208 651	199 762	-	(1 624 789)	(249 531)	2 534 276
Office equipment	1 659 520	-	-	(635 585)	(97 619)	926 316
IT equipment	1 358 805	295 249	-	(959 225)	(185 337)	509 492
Infrastructure	38 212 014	135 745	7 888 272	(103 481)	(320 659)	45 811 891
Bins and containers	29 562	-	-	(14 780)	(3 695)	11 086
Leased Assets	898 321	-	-	(434 188)	(179 664)	284 469
Park facilities	3 160 529	-	-	(441 898)	(158 342)	2 560 290
	62 242 658	1 126 710	7 888 272	(6 376 773)	(1 648 490)	63 232 559

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Mutale Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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4. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer Software	469 288	(137 073)	332 215	379 988	(137 073)	242 915

Reconciliation of carrying value - intangible assets - 2012

	Opening balance	Additions	Total
Computer Software	242 916	89 299	332 215

Reconciliation of carrying value - intangible assets - 2011

	Opening balance	Accumulated Amortisation and, Impairment Losses	Total
Computer Software	379 988	(137 072)	242 916

5. Inventories

Consumable stores	107 341	346 085
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6. Other receivables from exchange transactions

Other receivables from exchange revenue	2 112 531	737 902
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7. VAT receivable from exchange transactions

VAT	8 419 484	6 250 860
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VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

No VAT transactions took place relating to non-exchange transactions.

8. Consumer debtors

Gross balances

Rates	2 145 432	3 097 010
Refuse	-	373 741
	2 145 432	3 470 751

Less: Provision for debt impairment

Rates	-	2 598 179
Refuse	-	313 543
	-	2 911 722

Net balance

Rates	2 145 432	559 029
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Mutale Municipality

Annual Financial Statements for the year ended 2012/06/12

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Figures in Rand	2012	2011
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8. Consumer debtors (continued)

Rates

Current (0 -30 days)	257 452	326 140
31 - 60 days	210 254	248 626
61 - 90 days	193 088	925 660
91 - 120 days	467 275	617 107
120+ days	1 017 363	692 151
	2 145 432	2 809 684

Refuse

Current (0 -30 days)	30 623	18 595
31 - 60 days	23 005	2 906
61 - 90 days	3 326	2 823
91 - 120 days	23 753	1 027
121 - 150 days	80 707	61 065
	161 414	86 416

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	7 280	7 394
Bank balances	89 912	433 294
	97 192	440 688

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances		
	2012/06/12	2011/06/11	2012/06/12	2011/06/11	
FNB BANK - Current Account 54660083097	196 133	607 476	-	85 927	431 691
FNB BANK - Invest Account 62047182556	3 985	1 054	-	3 985	1 054
Total	200 118	608 530	-	89 912	432 745

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Figures in Rand	2012	2011
10. Finance lease obligation		
Minimum lease payments due		
- within one year	186 742	303 152
- in second to fifth year inclusive	-	186 741
	186 742	489 893
less: future finance charges	(9 286)	(59 103)
Present value of minimum lease payments	177 456	430 790
Present value of minimum lease payments due		
- within one year	186 742	303 152
- in second to fifth year inclusive	-	186 741
	186 742	489 893
Non-current liabilities	69 354	177 455
Current liabilities	-	253 335
	69 354	430 790

The Municipality leases photocopiers which are under finance lease.

The average lease term was 3 years and the average effective borrowing rate was 9% (2011: 10%).

Interest rates are linked to prime at the contract date. All leases escalate at 10 % p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MIG	4 908 888	9 403 579
Operations & Maintenance (Vhembe District)	6 698 025	11 569 961
National Lottery Grant	1 227 722	1 227 722
	12 834 635	22 201 262

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

These amounts are invested in a ring-fenced investment until utilised.

Mutale Municipality

Annual Financial Statements for the year ended 2012/06/12

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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12. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Provision for landfill site	1 235 201	123 520	1 358 721
Provision for long service awards	-	229 682	229 682
	1 235 201	353 202	1 588 403

Reconciliation of provisions - 2011

	Opening Balance	Total
Provision for landfill site	1 235 201	1 235 201

Landfill Site

The Municipality operates a refuse disposal site outside the residential areas in Makwilidza Village.

The landfill site facility began to be operational in 2010 and it was designed to be a solid waste disposal cells.

The site was constructed and applied for registration as a Landfill site under EMA and associated regulations as prescribed by the National Environmental Conservation Act (Act No. 73 of 1989). Currently, the facility is servicing Tshilamba Town and neighbouring business premises.

Long Service Award

The long service award is payable every 10 years of continuous service. The provision is an estimate of the long-service based on historical staff turn over.

13. Payables from exchange transactions

Trade payables	6 439 419	4 592 858
Payments received in advance	94 814	57 815
Other payables	8 370 165	6 020 717
Accrued leave pay	2 083 469	1 927 097
Accrued bonus	463 410	412 961
Retentions	3 039 454	2 908 547
	20 490 731	15 919 995

14. Consumer deposits

Consumer Deposit	212 587	211 783
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15. Revenue

Property rates	3 315 697	3 110 860
Service charges	224 660	193 131
Rental of facilities & equipment	63 705	70 183
Fines	195 980	194 355
Licences and permits	2 290 354	2 225 830
Government grants & subsidies	60 648 102	41 125 735
	66 738 498	46 920 094

Mutale Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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15. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	224 660	193 131
Rental of facilities & equipment	63 705	70 183
Licences and permits	2 290 354	2 225 830
	2 578 719	2 489 144

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	3 315 697	3 110 860
Fines	195 980	194 355

Transfer revenue

Government grants and subsidies	60 648 102	41 125 735
	64 159 779	44 430 950

16. Property rates

Rates received

	3 627 174	3 454 662
Less: Income forgone	(311 477)	(343 802)
	3 315 697	3 110 860

17. Service charges

Refuse removal	224 660	193 131
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Mutale Municipality

Annual Financial Statements for the year ended 2012/06/12

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
18. Government grants and subsidies		
Equitable share	37 232 000	29 975 380
Local Economic Development (LED)	444 352	436 537
MSIG	790 000	1 080 000
MFMG	1 254 007	1 000 343
Operations & Maintenance (Vhembe District)	4 725 973	6 414 875
Integrated National Electrification Programme	2 291 958	-
MIG	13 909 812	2 218 600
	60 648 102	41 125 735

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 100% of property rates charged and 50% on refuse removal charges, which is funded from Equitable Share Grant. Also the indigents receive 6 kilo-litres of water services which is also funded from the Vhembe District Municipality Grant.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	9 403 579	6 087 179
Current-year receipts	13 995 000	5 535 000
Conditions met - transferred to revenue	(13 909 812)	(2 218 600)
Funds Witheld	(4 579 879)	-
	4 908 888	9 403 579

Conditions still to be met - remain liabilities (see note 11).

Municipal Finance Management Grant (MFMG)

Balance unspent at beginning of year	-	317
Current-year receipts	1 250 000	100 000
Conditions met - transferred to revenue	(1 254 007)	(100 317)
	(4 007)	-

Conditions still to be met - remain liabilities (see note 11).

Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	-	330 000
Current-year receipts	790 000	750 000
Conditions met - transferred to revenue	(790 000)	(1 080 000)
	-	-

Conditions still to be met - remain liabilities (see note 11).

Operations & Maintenance Grant (Vhembe District)

Balance unspent at beginning of year	11 569 961	5 495 983
Current-year receipts	4 288 190	12 518 432
Conditions met - transferred to revenue	(9 160 126)	(6 444 454)
	6 698 025	11 569 961

Conditions still to be met - remain liabilities (see note 11).

National Lottery Grant

Mutale Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
18. Government grants and subsidies (continued)		
Balance unspent at beginning of year	1 227 722	1 227 722
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	1 227 722	1 227 722

Conditions still to be met - remain liabilities (see note 11).

19. Other income

Other income	342 026	646 286
EPWP	290 000	-
LGSETA	283 604	-
Sales of Sites	1 408 042	-
	2 323 672	646 286

20. General expenses

Advertising	285 390	69 507
Auditors remuneration	319 821	1 607 253
Bank charges	222 935	96 595
Cleaning	9 868	38 192
Bursaries	80 266	119 086
Consulting and professional fees	254 140	1 074 887
Legal expenses	178 667	286 410
Entertainment	7 552	24 362
Insurance	43 233	117 608
Conferences and seminars	36 700	-
Rental of office equipment	64 345	106 755
Membership fees	230 749	64 440
Electricity - Eskom	855 151	76 258
Postage and courier	7 193	5 777
Printing and stationery	172 582	155 295
Protective clothing	170 560	112 860
Security	510 500	291 000
Telephone and fax	438 502	299 036
Travel and Subsistence	553 141	356 830
Training	316 725	82 885
Other expenses	1 359 058	1 282 326
	6 117 078	6 267 362

Mutale Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
21. Employee related costs		
Basic	15 276 327	15 174 927
Bonus	1 205 698	1 045 971
Company contributions, UIF and medical aids	4 113 399	3 508 251
Workers Compensation Assistance	792 500	-
Overtime payments	451 623	333 261
Long-service awards	229 682	-
Transport Allowance	2 237 044	1 698 619
Car allowance	842	-
Housing benefits and allowances	34 478	44 680
Other employee related costs	537 191	442 855
	24 878 784	22 248 564

Remuneration of Municipal Manager

Annual Remuneration	425 897	372 195
Travel and Related Allowances	232 936	170 150
Backpay	57 912	-
Contributions to UIF, Medical and Pension Funds	112 298	111 295
Cellphone Allowance	21 600	-
	850 643	653 640

Remuneration of Chief Finance Officer

Annual Remuneration	440 264	328 688
Travel and Related Allowances	184 826	159 260
Cellphone Allowance	11 700	-
Contributions to UIF, Medical and Pension Funds	96 557	98 460
Leave Gratuity	44 909	-
Acting Allowances	15 571	-
	793 827	586 408

Remuneration of Technical Services Manager

Annual Remuneration	450 276	328 688
Cellphone Allowance	12 000	-
Travel and Related Allowances	199 626	157 246
Contributions to UIF, Medical and Pension Funds	105 031	98 460
	766 933	584 394

Remuneration of Corporate Services Manager

Annual Remuneration	450 276	328 688
Cellphone Allowance	12 000	-
Travel and Related Allowances	199 626	157 246
Contributions to UIF, Medical and Pension Funds	105 031	98 460
	766 933	584 394

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Annual Financial Statements for the year ended 2012/06/12

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
22. Remuneration Of Councillors		
Executive Mayor	579 903	371 508
Speaker	490 365	297 206
Chief Whip	457 723	-
Executive Committee Members	977 670	608 343
Other Councillors	1 551 045	1 928 824
Councillors' pension and medical aid contribution	759 950	531 926
Councillors' allowances	1 600 579	1 493 581
	6 417 235	5 231 388

23. Debt impairment

Debt impairment	126 245	2 238 934
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24. Interest Revenue

Interest Revenue		
Outstanding Receivables	1 153 184	223 473
Interest revenue		
Bank	385 059	350 276
	1 153 184	223 473
	385 059	350 276
	1 538 243	573 749

25. Depreciation and amortisation

Property, plant and equipment	1 371 229	1 648 944
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26. Finance costs

Non-current borrowings	190 082	286 061
Trade and other payables	1 926 925	202 188
	2 117 007	488 249

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit .

27. Auditors' remuneration

Fees	319 821	1 607 253
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Mutale Municipality

Annual Financial Statements for the year ended 2012/06/12

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
28. Cash generated from operations		
Surplus	27 404 676	7 204 690
Adjustments for:		
Depreciation and amortisation	1 371 229	1 648 944
Dividends received	(361 351)	-
Debt impairment	126 245	2 238 934
Movements in provisions	353 202	-
Other non-cash items	242 047	-
Changes in working capital:		
Inventories	238 744	431 733
Other receivables from non-exchange transactions	(1 374 629)	(46 005)
Consumer debtors	(1 586 403)	(41 912)
Payables from exchange transactions	4 570 736	9 088 397
VAT	(2 168 624)	(1 850 773)
Unspent conditional grants and receipts	(9 366 627)	-
Consumer deposits	804	(7 939 283)
	19 450 049	10 734 725
29. Commitments		
Authorised capital expenditure		
Commitments Approved and Contracted for		
• Property, plant and equipment	11 813 527	12 988 416

Mutale Municipality

Annual Financial Statements for the year ended 2012/06/12

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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30. Contingencies

No contingent liabilities have been identified at year end.

Contingent liabilities

No contingent liabilities were note during the period.	-	2 000 000
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31. Related parties

Relationships

Close family members of key management

Associate of close family member of key management

No related party transactions took place other than compensation paid to councillors and key management.(Refer to note 21 & 22 for transactions disclosed)

32. Prior period errors

The municipality recognised electricity deposits that were paid to Eskom of R222 997 as they were not recognised in the previous periods.

The municipality incorrectly processed take-on balances of R1 184 905 relating to trade creditors and this has been corrected in the prior period .

The municipality had not recognised revenue from sales of sites of R2 569 570 because an agreement to transfer property had not being signed between the Thengwe Trust and Mutale Municipality and was signed during the 2011/12 financial year thus recognised revenue from prior years.

The net effect on the accumulated surplus of the 2011/12 financial year was an increase of R1 607 663.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Other receivables from exchange transactions	-	222 997
Payables from exchange transactions	-	1 184 905
Opening Accumulated Surplus or Deficit	1 607 663	-

Statement of Financial Performance

Sales of sites revenue	-	2 569 570
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33. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.

Mutale Municipality

Annual Financial Statements for the year ended 2012/06/12

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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33. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. The municipality cannot, however, limit the rate at which it can offer services to its stakeholders as it has constitutional mandate to offer these services.

Financial instrument	2012	2011
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34. Going concern

The annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months. The municipality depends on government grants for its operations.

35. Events after the reporting date

The Accounting Officer is not aware of any significant material matter or circumstance that occurred after the year-end and warrant adjustment or disclosure in the financial statements.

36. Key sources of estimation uncertainty and judgements

The following areas involve significant degree of estimation uncertainty :

Useful lives and residual values of property, plant and equipment

Recoverable amounts of property, plant and equipment.

Provision for doubtful debts.

Impairment of assets.

Provision for landfill site.

Provision for long service.

37. Unauthorised expenditure

Opening Balance	10 631 301	472 563
Unauthorised current year expenditure	-	10 631 301
Approved by Council or condoned	(10 631 301)	(472 563)
	-	10 631 301

There was no unauthorised expenditure during the current period.

38. Fruitless and wasteful expenditure

Opening Balance	270 831	140 385
Fruitless and wasteful expenditure	2 034 026	270 831
Approved by Council or condoned	(270 831)	(140 385)
	2 034 026	270 831

Current year fruitless and wasteful expenditure consists of late payment interest and penalties by Telkom, Eskom, Auditor General, FNB Bank and SARS.

Mutale Municipality

Annual Financial Statements for the year ended 2012/06/12

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
39. Irregular expenditure		
Opening balance	12 561 554	6 302 522
Add: Irregular Expenditure - current year	-	12 561 554
Less: Amounts condoned	(12 561 554)	(6 302 522)
	-	12 561 554

40. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	27 404 676	7 204 690
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41. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	514 893	969 427
Current year subscription / fee	1 006 794	1 607 253
Amount paid - current year	(998 292)	(2 061 787)
	523 395	514 893

PAYE and UIF

Opening balance	945 717	1 324 947
Current year subscription / fee	146 416	2 928 004
Amount paid - current year	(926 365)	(3 307 234)
	165 768	945 717

Pension and Medical Aid Deductions

Opening balance	675 750	4 193 390
Current year subscription / fee	1 061 685	3 669 671
Amount paid - current year	(1 737 435)	(7 187 311)
	-	675 750

VAT

VAT receivable	8 419 484	6 250 860
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VAT input receivables are shown in note 7.

Mutale Municipality

Annual Financial Statements for the year ended 2012/06/12

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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41. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

2012/06/12	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor P.D Nekhunguni	530	486	1 016
Councillor R.V Maisha	205	1 082	1 287
Councillor T.J Raluswinga	473	245	718
Councillor A.G Netshisaulu	40	212	252
Councillor A.E Nekhunguni	169	-	169
Councillor T.S Madume	40	192	232
Councillor R. Masiandoita	283	3 484	3 767
Councillor A.R Mavhungu	34	23	57
Councillor K.A Lukhalimana	622	551	1 173
	2 396	6 275	8 671

2011/06/11	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor P.D Nekhunguni	-	242	242
Councillor T.J Raluswinga	113	209	322
Councillor A.G Netshisaulu	37	-	37
Councillor L.M Netshisaulu	46	-	46
Councillor A.E Nekhunguni	52	-	52
Councillor S. Madume	177	-	177
Councillor K. Lukhalimana	228	-	228
Councillor R.V Maisha	55	-	55
	708	451	1 159

42. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

43. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.

44. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the annual financial statements.